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Attorneys for Adaman Mutual Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF ADAMAN MUTUAL WATER COMPANY FOR APPROVAL TO ISSUE STOCK	Docket No. W-01997A-09-0297

RESPONSE TO REQUEST FOR HEARING

Adaman Mutual Water Company, an Arizona non-profit corporation ("Adaman" or the "Company") submits this Response ("Response") to Request for Hearing filed by Dr. Lise LaBarre on May 6, 2010 (the "LaBarre Application"). Under Ariz. Admin. Code ("AAC") § 14-3-106.F, an "application" is defined as a request for a right, authority or other affirmative relief (other than by complaint or counterclaim) or a request for leave to intervene. The LaBarre Application states that she "plans to submit an Interveener," [*sic*]. The LaBarre Application is essentially a motion for leave to intervene, and an "application" for a hearing. Under AAC § 14-3-109.C, the Arizona Corporation Commission (the "Commission") may dismiss such motions or applications with prejudice. Adaman asks that the LaBarre Application be dismissed, with prejudice, and no hearing be set. In support of this Response, Adaman provides the following memorandum of points and authorities.

Arizona Corporation Commission
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MEMORANDUM OF POINTS AND AUTHORITIES

1. The Motion to Intervene is Untimely and Does Not Meet the Standard for Intervention

Under AAC § 14-3-105, intervention is only granted to persons who are directly and substantially affected by the proceedings. A proper motion for intervention must (i) be timely filed, (ii) state the basis for the application and granting the application, and (iii) must not unduly broaden the issues. *See* AAC § 14-3-105.A-B. As discussed below, the LaBarre Application fails to meet any of the requirements for a proper motion to intervene. Therefore, the LaBarre Application should be dismissed with prejudice.

A. The Application is Untimely

The LaBarre Application was filed well past any reasonable deadline for intervention. On October 5, 2009, Adaman published a Public Notice of an Application for an Order Authorizing the Issuance of Stock Pursuant to the Agreement and Plan of Reorganization by Adaman Mutual Water Company (the "Notice"). The Notice clearly stated that any persons seeking to intervene in the Commission's proceedings on the Company's Application for an Order Authorizing the Issuance of Stock Pursuant to the Agreement and Plan of Reorganization (the "Adaman Application") must properly do so on or before the 15th day after the date of the Notice. Any applications to intervene must have been filed on or before October 26, 2009.[1]

Out of an abundance of caution, Adaman again published a notice (the "Second Notice") when it recently amended the Adaman Application. Adaman published the Second Notice on April 7, 2010. Any applications to intervene regarding the Adaman Application, as amended, must have been filed on or before the 15th day after the date of the Second Notice. The latest date that any applications to intervene may have been timely filed was April 22, 2010. Here, Dr. LaBarre filed the LaBarre Application on May 6, 2010 – substantially later than any deadline for intervention.

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1 The 15th day after publishing was October 24, 2009. This date, however, was a Saturday so the next available day to file an application to intervene was Monday, October 26, 2009.

More importantly, however, Dr. LaBarre actually knew at least a year ago that Adaman was applying to the Commission for approval of the Company's issuance of stock pursuant to its Agreement and Plan of Reorganization, as amended (the "Plan of Reorganization" or the "Plan"). On March 31, 2009, over a year ago, Dr. LaBarre actively solicited Adaman's Members for certain corporate changes. *See* LaBarre's March 31, 2009 letter, attached as Exhibit "A". In response to Dr. LaBarre's March 31, 2009, letter, Adaman's attorney provided members with a memorandum response dated April 3, 2009. See April 3, 2009 Memorandum, attached as Exhibit "B". In the April 3, 2009, memorandum, Adaman's attorneys explained that, among other things, Adaman would submit to the Commission the Plan of Reorganization for the Commission's approval for the stock issuance.

Dr. LaBarre attended the 2009 annual meeting, was nominated for a position on the Board, commented on the Plan of Reorganization, and cast her vote on the Plan of Reorganization. The proposed Commission filing was discussed at the same annual meeting, and was included in the First Amendment to the Plan of Reorganization (the "First Amendment"). Dr. LaBarre in her comments at the meeting expressed her intent to monitor this Commission approval process. *See* Affidavit of David Schofield attached as Exhibit "C". The Plan of Reorganization passed by over 94% of the votes cast, and the First Amendment passed by over 99% of the votes cast. Despite Dr. LaBarre's knowledge *over a year ago* of Adaman's plan to apply to the Commission, Dr. LaBarre did not timely request to intervene. The LaBarre Application, or any other application to intervene subsequently filed by Dr. LaBarre, is untimely and should be dismissed with prejudice.

B. The LaBarre Application Unduly Broadens the Issues by Asking the Commission to Deal with Substantive Elements of the Plan of Reorganization

These proceedings only deal with the Adaman Application, as amended. The only matters at issue in this proceeding are those that arise under Ariz. Rev. Stat. ("A.R.S.") § 40-301, *et seq.*, which require the Commission to approve a public service corporation's issuance of "stock certificates, bonds, notes, and other evidence of indebtedness, and to create liens on their property located within the state . . . ." before the issuance can occur. As indicated by the Staff's

Supplemental Staff Report for Adaman Mutual Water Company Application of Approval to Issue Stock, dated April 14, 2010, the Commission does not address the Plan of Reorganization, other than the issuance of stock called for by the Plan.

The LaBarre Application does not address the issuance of stock, but instead complains about the implementation of the Plan of Reorganization itself and possible actions that the board of directors of the Company (the "Board") might be able to take in the future under Adaman's Amended Articles of Incorporation (the "New Articles"). These matters go far beyond the proposed issuance of stock and are baseless, as explained below. A hearing on the issues presented in the LaBarre Application would examine the validity of the Plan of Reorganization and its effect on Adaman's internal corporate governance. Examining these issues would unduly broaden the matters under consideration in the Adaman Application; accordingly, the LaBarre Application should be dismissed with prejudice.

2. <u>There is No Reasonable Basis for a Hearing because the Issues Raised are Unfounded and are Not Appropriate for Consideration by the Commission in a Hearing on the Adaman Application</u>

A hearing is only appropriate in cases where additional evidence is needed in order to decide the matter under review. In this case, the issue the Commission is considering is whether to approve the Company's issuance of stock. The LaBarre Application does not set forth a controversy for the Commission to consider in this matter. The LaBarre Application fails to identify any claims that justify considering further evidence in order to consider whether the Commission should approve Adaman's stock issuance. Even if the Commission were to broaden the scope of the review to include matters outside the issuance of stock, the LaBarre Application badly misstates the nature of the Plan of Reorganization and New Articles, as is explained below.

A. The Application Misunderstands the Distinction Between Authorized and Issued Shares of Stock

Dr. LaBarre asserts that the Plan "creates" "dividend-granting Preferred Shares." The New Articles *authorize* the Board to issue shares of a preferred class of stock, but the New Articles *do not issue* preferred shares of stock. For Adaman to issue such preferred shares,

Arizona law requires that Adaman first obtain the consent of the Commission. The Adaman Application does not seek to have any preferred shares issued, and Adaman sees no reason to seek approval for the issuance of preferred shares in the foreseeable future. The matter of issuance of preferred shares is outside the scope of the Adaman Application, and conducting a hearing on the matter would unduly broaden the issues under consideration in this case.

B. The Application Misunderstands the Distinction between Debt and Equity Interests

If the Plan of Reorganization is implemented, the Board would have the authority to issue preferred stock. This provision was included in the New Articles to grant Adaman the flexibility to respond to evolving needs. Such provisions are common in the corporate charters of many utilities. Dr. LaBarre asserts that "by the creation of the dividend-granting Preferred Shares the current stock-holders assume a liability which they do not currently have." [*sic*] Authorizing preferred shares does not create a liability for common shareholders. Furthermore, even if the Board issued preferred shares of stock and the Commission approved the issuance in a separate docket, this would not create a liability for common shareholders. By definition, an Arizona corporation, whether for profit or non-profit, provides limited liability to its shareholders.

Finally, shares of stock are equity, not debt, and, therefore, do not create a liability on the books of the Company itself, but instead constitute capital. The Board's authorization to issue a preferred class of stock does not create a liability; rather it allows for flexibility to adapt to the Company's evolving needs in the future. The issue raised here, if there is one, is outside the scope of the Adaman Application and should not be considered at a hearing.

C. The Application is Wrong Regarding the "Dilution" of Member's Power

The LaBarre Application incorrectly states that "the ability of the current Stock-holders to participate in the management of the Company is greatly diluted." [*sic*] There is no dilution of power of Adaman's landowners under the new organizational structure. *Ownership and voting rights under the new structure are exactly proportionate as membership and voting rights under the old structure.* As with *every* Arizona corporation, whether for profit or non-profit, the shareholders or members elect the board of directors, and, under the law, the board of directors

is vested with certain powers to manage the Company. The new organizational structure does not change this. Moreover, in this case, Adaman's members voted by an overwhelming majority to approve the Plan of Reorganization, the New Articles and a newly elected Board. Dr. LaBarre's real complaint is that she does not like the results of the action taken by her fellow members. There is no appropriate issue for the Commission to consider here.

D. The Application Misunderstands the Distinction between "For Profit" and "Public" Companies

Dr. LaBarre asserts that the members never intended for Adaman to become a "for-profit Public Company, with Investment Shares to be sold to the Public outside our Community." [*sic*] Adaman is not now, and will not under the Plan of Reorganization, be a publicly traded company. It is, and will continue to be, a privately owned corporation, with ownership of each voting share determined exactly the same as member voting rights were determined while Adaman was a non-profit corporation – directly in proportion to acres owned within the Project (as defined in the New Articles). Again, this issue is wholly inappropriate for the Commission to pass upon in a hearing regarding the Adaman Application.

E. Adaman's Actions Benefit Its Members

Dr. LaBarre's assertions, even if well intentioned, are misguided, misinformed and mischaracterize the Plan of Reorganization, the transactions it contemplates. Addressing these matters, as Dr. LeBarre requests, will unduly broaden the scope of the issues in the Adaman Application.

Adaman is pursuing the Plan of Reorganization solely to serve its members – the "community" that Dr. LaBarre refers to. Adaman was mandated by Federal law to construct an arsenic treatment plant. To finance the new plant, Adaman contracted to sell water at wholesale outside of the Company's service area; without the Plan of Reorganization, however, these contracts cannot be consummated. If the Plan does not proceed, Adaman's members will be charged substantially higher rates in order to pay for the plant. Furthermore, if Adaman's assets were condemned by another municipality, without the Plan of Reorganization, Adaman's members could not benefit or share in the condemnation proceeds, even though they had,

directly and indirectly, created the value of Adaman and its assets. In short, the Plan of Reorganization is a rational and effective response to funding mandated federal expenditures and to preserving the rights of Adaman's members to control their corporation.

3. The LaBarre Application is Improper because Dr. LaBarre is not a Party to the Proceeding

Dr. LaBarre is not yet a party to the proceeding on the Adaman Application. She is not a complainant, and, she has not properly obtained an order to intervene. Therefore, because she has no standing to request a hearing on the Adaman Application, the LaBarre Application for a hearing should be dismissed with prejudice.

CONCLUSION

The LaBarre Application, if treated as a motion to intervene, should be dismissed with prejudice because the LaBarre Application (i) is not timely and (ii) unduly broadens the scope of the issues under consideration pursuant to the Adaman Application. The application for a hearing is also improper because the LaBarre Application (i) raises issues that are not appropriate for consideration by the Commission in a hearing on the Adaman Application, (ii) is erroneous and factually mistaken, and because (iii) Dr. LaBarre is not a party to and therefore has no standing to request a hearing on the Adaman Application.

For the foregoing reasons, Adaman hereby requests the Commission dismiss the LaBarre Application with prejudice.

DATED this 24th day of May, 2010.

RYLEY CARLOCK & APPLEWHITE

By _____

Michele Van Quathem, Atty. No. 019185
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Attorneys for Adaman Mutual Water Company

An original and thirteen copies of the foregoing filed this 24th day of May, 2010 with:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, Arizona 85007

Copies of the foregoing hand delivered this 24th day of May, 2010 to:

Steve Olea
Utilities
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, Arizona 85007

Charles Hains
Legal Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, Arizona 85007

Lyn Farmer
Hearings
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, Arizona 85007

Copy of the foregoing mailed this 24th day of May, 2010 to:

Dr. Lise LaBarre
7102 North 35th Ave., Suite #3
Phoenix, Arizona 85051

By _____

A

March 31, 2009

Dear Adaman Mutual Water Company Member,

You have no doubt received a packet of information from our water company, asking you to endorse a change of corporate status, new Bylaws, and two Directors, supported by the current Board.

Since you will find my name also on the ballot, with a "no position" non-endorsement from the Board, you might well think this letter is a campaign letter for a position on the Board; it is not. It is a plea for us to re-gain control of our water company before it is gutted.

When I read the proposed Agreement, the proposed Incorporation, and proposed Bylaws, my initial thoughts were that this simply represented a tightening of control by the Board, going from the current seven (7) Board members to five (5), giving the Board, or a quorum of the Board, three (3) individuals the right to issue Preferred Bonds, not just to Company members, but to the public at large, the power to decide how much these Bonds were worth (our Common Stock having a value of zero (0)); the power to decide whether these Bonds were paid up at issuance or not (ie,"gifting" of Bonds), as well as deciding what the dividends paid to each class of Bonds would be (ours, owners of Common Stock would no doubt be minimal compared to what the owners of Preferred Stock would be).....and I thought this was bad enough...but then I read everything again....and a light came on....

Over the last several months, since I have attended the Board meetings (at least since 4/08), I became aware that our Company had committed itself (although still a non-profit) to selling water to Goodyear, at a profit of several million dollars a year, potentially. That would necessitate a change in corporate status. Fine, perhaps. There was never any discussion of an alternate status other than a regular "C" corporation, although you will read that a "cooperative" system, "LLC corporation, and Chapter "S" corporation were considered. I never heard these mentionned in the Board meetingss. This doesn't surprise me, since the current Bylaws state that the Board can have meetings over the telephone, make decisions over the telephone, even out-of-State, if they chose. We don't even have the right to attend the Board meetings; it was made clear to me that I was a "guest", and allowed to attend by the graciousness of the Board. (PLEASE read the current Bylaws which will be provided at the meeting)

Getting back to the point: I have never seen a Business Plan showing what our expenses, including State, Federal and County Property taxes would be under any scenario, and how much water we would have to sell to Goodyear to break even. The proposed contract with Goodyear stipulates that Goodyear will finance an

Arsenic treatment Plant, at a cost of about 1.3 million dollars. It is already installed and functionning.

In exchange, we have agreed to sell water to Goodyear for 99 years, rate to be determined. Amount to be determined, depending on the level the aquifer drops down to. Because we have been supplementing ground (well) water with CAP water, the aquifer level has been rising over the last few years. Our needs are not likely to increase much over the next few years, but in a few years, Goodyear could "suck us dry", with their planned developments, once this re cession is over. There is a provision to slow and even halt all water sales to Goodyear, if this happens, but how much money do we need in reserve, for paying all these taxes if we don't sell water to Goodyear, or if Goodyear doesn't need as much as it has planned to need?

Yes, we might NEED to sell Preferred Bonds at that time. Strangely, although our water company has existed since 1943, we have never had to "sell ourselves" before, to make ends meet. The Board suggests that this is the reason Preferred Stocks would be issued. Not so fast.

Back to the Board Meetings. When someone asked what we, the company would do, with the expected profits from Goodyear, someone suggested we could reduce our water rates, we could give dividends (regular "profit-sharing"), to the members of the Adaman water company, in proportion to the acreage one holds. No one seemed very enthusiastic about any suggestion.

I eventually realized that the "large land-owners" who run the Board (MRs Ashby, Conklin and Etchart) don't even have a domestic water account. That's right. An owner may irrigate 500 acres, that has nothing to do with our domestic water company. Just about all the owners of 20 acres or more lease their land for farming, but they don't pay a nickel a year in Domestic Water Fees, if they don't have a faucet on their property. Most don't. The large landowners who don't actually live in our water company boundaries (MRs Ashby and Etchart don't; Mr Coklin has an office in our area) don't pay a yearly assessment per acre, for the water company to maintain a domestic water line across the front of their 200-300 acre parcels, they don't voluntarily "gift" $50,000. to $100,000.00 a year to the water company. They pay nothing, unless they have a Domestic Water Account. They pay irrigation water to the Adaman Irrigation Water District, a completely different corporate entity.

So why have we let the "large land-owners" control our water company, when we, the 230 or so owners of 20 acres or less, most of whom live here, pay for our water, pay for the maintenance of the wells, pay for the office staff, pay for every chair in the company office, while others pay nothing ?????? I guess we were asleep at the controls.

This is one reason we cannot support this type of incorporation at this time. We cannot let the same individuals who have controlled the company for the last 20-25 years not only continue to control the company, but tighten their grip on it.

I mentionned that the current Bylaws, since 1994, have called for seven Board members. Has it occurred to anyone else that we have voted for only 5 since at least 1989? Why? Because that is the number of positions the Board offered up for election, as the Board empirically decided years ago, that it preferred "naming" to the Board our two (2) full time employees, this, year after year.

When I mentionned to Mr Garklin, President of the Board that four (4) positions were open, since even if there is a vacancy which develops on the Board during the year, the Board can nominate a replacement Director, only until the next election, and documented this by a letter I hand-delivered to him, a decision was made to ignore my request for <u>four</u> positions to be offered for election. I also requested that a letter be sent ahead of the election, asking for candidates to be nominated for those four positions, so <u>all</u> the candidates could be placed on the ballots which would be mailed.

After all, how can one know a certain candidate has been nominated from the floor at the meeting, as allowed in the Bylaws, if someone has already voted by mail? This was also ignored.

As you can see in the proposed <u>Incorporation</u>, the <u>Directors have already been chosen by the Board, even the positions which are up for election</u>. Obviously, they don't have much faith in my candidacy.

Why are the Board members so brazen? Because thus far, we have allowed people who own a lot of land, and who could <u>potentially</u> receive water from our <u>Domestic Water Company</u> (not to be confused with the water from the Irrigation Water District, which they also "own" for all practical purposes) to control our company, when they contribute NOTHING to it.

In passing, please let us not include Mr. K. Moss, Director for many years, as one who does not contribute towards Company expenses. Mr Moss's cows will not drink irrigation water; he has brought them up well, and they have financed many a well repair, bless those girls!

In short, thus far, our Annual Meeting is out of order because it violates Section 2, par 2.4 of the current Bylaws, which are still in force, until after the membership votes for a change, if it does (3/4 of the membership must support a change, for it to be valid). The proxy vote is inaccurate and invalid legally, since there ARE currently (Bylaws, Section 3, 3.1)<u>FOUR POSITIONS open for Director</u> not two. The Board is conveniently asking that the new Bylaws have only 5 members of the Board, but the <u>new BYLAWS have NOT been voted on yet</u>, so they have to offer four positions.

This should be enough, right? No Business Plan offered, no real consideration of alternate incorporations (it isn't "real"to me until I have seen some Figures to back any proposal). A Board who has misrepresented elections for years, not only to us but to the Arizona Corporation Commission in its Annual Reports (back to '89; I didn't go back any further), possibly jeopardizing our status (I've checked status OK-corrected forms need to be submitted if what I described to them-the above-is correct).

An incorrect election ballot. It should be enough. But it seems it isn't

I've figured out that purchasing "Preferred Shares" is the best way the "large land-owners" can benefit from the profits of our water company. Our "Common shares" are worth nothing but the right to receive water and to elect Directors (one owner,one vote). The Preferred Shares are where the Real Value of the company is. Anyone can buy Preferred Shares, whether they own any land in our district or not; it is essentially our little water company"going public".

Once we sell Preferred Shares, at the exclusive decision of the Board, the Board decides how much the shares are worth, how much the dividends will be, etc. It even decides to whom and when it may give (declare them "Paid) shares.

******* There, ladies and gentlemen is where the profits from the sale of water to Goodyear will go, if you agree to this.

The folks who can afford it will buy the worthwhile shares of our company. If our company takes out a loan, or has financial problems, Preferred Shares will be protected by law; whereas if we should go bankrupt, or be condemned by a city (taken over), or sell our company, the owners of Preferred Shares would get any "real value" of our company, to the extent of the value of their shares; we would get the leftovers.

WE OWN OUR COMPANY. Why should we expose ourselves to this?????

The Board says we need "Preferred Shares" in case we need to borrow money. Why then go ahead with a sale plan which they think is likely to result in our needing to borrow money by issuing shares when we are financially very stable now, and we can get a bank loan whenever we need it????

We can see now what happens when Directors of a company are paid in shares. They drive the company into the ground in order to cash out their shares. That's how companies are gutted. This is what hedge funds do also. They buy a controlling interest, gut the company and sell the corpse.

ATTEND THE 4/7/09 MEETING IN PERSON IF AT ALL POSSIBLE

What do we do?

1. VOTE NO ON EVERYTHING. RESCIND (IF) YOU HAVE VOTED YES BY MAIL, SEE ENCLOSED FORM
2. Demand legal representation, paid by the water company, as they have spent OUR money for the benefit of the Board. Legal Counsel I have consulted tells me we can go to court, and it may well be granted, all the above considered, even prior to a lawsuit being filed.
3. We need to demand the "one acre, one vote system" be dropped, since large landowners often contribute nothing to our Domestic Water Company.
4. We need our own financial consultants to help us decide what kind of incorporation is best. It will not be one with public shares or Preferred Shares, I would expect.
5. We need a Membership meeting where legal implications of various proposals will be explained, NOT by the ATTORNEYS representing the BOARD.

DOING NOTHING IS BETTER THAN PUTTING OUR HEADS IN THE NOOSE !!!!!!!

I am told by legal counsel that we may need to file an "Owner's Derivative Lawsuit", or other type of lawsuit. Please consider a possible contribution towards this in the near future, at least until we can get a Hearing on the Company paying our attorney fees.

If 3/4 of the membership rejects the proposed new Incorporation and Bylaws, the current President needs to schedule another "Annual Meeting" (was to have been 3/3/09, per current Bylaws), to elect four Directors, after nominations have been obtained and cleared by the Nominating Committee, and ballots approved by the Board.

We can then proceed in an orderly fashion to examine alternatives and propose them to the membership. In passing, per legal counsel, after review of all pertinent paperwork, it is up to the membership to determine the number of Directors, not the Board (can't tell you why and how now; let the Board's attorneys figure it out for themselves

Please note that if you vote "yes", you are voting for everything the Board is asking for: the new Agreement, the new Incorporation, and the two Board candidates endorsed by the Board.

(Is this type of Ballot even legal?????)

Sincerely,

Lise A LaBarre

Lise A. LaBarre, M.D.

RESCINSCION AND REVOCATION OF PROXY VOTE

Re: Proxy Solicited On Behalf of The Board of Directors of Adaman Mutual Water Company

On a date, herein indicated, prior to the Annual Meeting date scheduled for April 7, 2009 I herein rescind and revoke my prior ballot, already mailed or submitted to the Adaman Mutual Water Company.

The following is submitted:

The language of the Ballot is accepted and restated.

Item 1. Approval of Agreement and Plan of Reorganization and Restated Articles.

The Proxies are instructed to vote (Circle one)

FOR AGAINST ABSTAIN

Item 2. Approval of the two candidates endorsed by the Board, to be Directors

The Proxies are instructed to vote (Circle one)

FOR AGAINST ABSTAIN

Item 3. Action on Other Business

The Proxies are NOT authorized to vote on such other business as may properly come before the meeting.

Signature

Printed Name

Date

Each person whose name appears above should sign the proxy. If signing as fiduciary, give title. Please mark, sign , date and return.

Mail to : Adaman Mutual Water Company, 16251 West Glendale Ave, Litchfield Pk, AZ 85340

B

MEMORANDUM

Date: April 3, 2009

To: Members, Adaman Mutual Water Company

From: Board of Directors

Subject: Adaman Mutual Water Company: Response to Letter from Lisa LaBarre, M.D.

This memorandum responds to issues raised in a letter sent to the Members of Adaman Mutual Water Company (the "Company") by Lisa LaBarre, M.D. Dr. LaBarre's letter is misleading and in a number of respects either misunderstands or mischaracterizes the reasons the Board of Directors (the "Board") has recommended the Company be reorganized as a for-profit corporation. The Q&A's the Board distributed to Members were intended to address the very issues that Dr. LaBarre has raised. To assist members in better understanding why we have recommended that the Plan of Reorganization be adopted, we have directed that the following information be sent to each Member.

Q1: What are the reasons the Board has recommended changing the Company from a nonprofit corporation to a for-profit corporation?

A: As presently organized, the Company cannot make distributions to its Members. The Company can only deliver water to persons located within the Project Area the Company services. The Company cannot even become a cooperative. If the Company's water facilities were to be condemned, Members would be unable to participate in or benefit from condemnation proceeds. The Company would also be unable to contract with the City of Glendale to sell excess water. For these reasons, we believe that the change is necessary. We believe it is possible that at some point in the future, the Company's facilities may be condemned and in that event, its Members should benefit.

Q2: Will the proposed changes give Members fewer rights than they have today?

A: No. Members will have greater rights under the reorganized Company. As the Company is currently organized, Members do not have the right to exercise cumulative voting for the election of directors. Each Member has as many votes as the Member owns acres within the project. If the new Plan of Reorganization is approved, Members will be able to cumulate their votes in the election of directors.[1]

Q3: Why does the reorganized Company allow the shareholders one vote per acre?

[1] This gives minority members greater voting rights when it comes to the election of directors.

A: Historically, the Company's charter documents (Articles of Incorporation and Bylaws) have provided one vote per acre of land owned within the Project Area. This is the same method of voting that applies to the Salt River Project and to many other agricultural districts. If the Company is reorganized from a nonprofit to a for-profit corporation, I.R.S. rules require that there must be a continuity of interest in order for the reorganization to be tax-free. By maintaining the same one vote per acre structure, that continuity of interest is preserved for tax purposes, thus helping to assure that the reorganization is tax-free. If Dr. LaBarre's suggestions were adopted, the Company would likely not be able to effect a tax-free reorganization.

Q4: What Bylaws govern the business of the Company?

A: Dr. LaBarre incorrectly states that the Company is operating under its old Bylaws. The Company's old Bylaws, as well as the new Bylaws, allow the Board to amend, repeal and adopt new Bylaws. This is true for most corporations. The Board has adopted new Bylaws. In an effort to keep Members advised of the Board's actions, we elected to submit those Bylaws to the Members and to have the Members ratify the Bylaws adoption. This was not required by law. Dr. LaBarre is criticizing us for being open with the Members of the Company.

Q5: If the Plan of Reorganization is adopted, will the Company be authorized to issue Preferred Bonds?

A: Dr. LaBarre's letter incorrectly states that the Plan of Reorganization would allow the Company to issue Preferred Bonds. Bonds are debt, not equity. Preferred Stock has rights that are lesser than and subordinate to, debt. The Plan of Reorganization would allow the Company to issue Preferred Stock, which is a form of equity. The Company would only issue Preferred Stock if it needed to do so to finance the development and build out of its water system or make other capital improvements. Virtually all corporations that are "for profit" have the ability, by law, to issue Preferred Stock, as long as the Company's articles of incorporation so provide. Our legal counsel suggested that we have this right in the event it might be necessary in the future. There is nothing unusual in providing that the Company may issue Preferred Stock if the Board determines it is appropriate to do so. This is the same function that a Board performs in any company, including some of the largest in the country.

Q6: If the Plan of Reorganization is approved, what role will the Arizona Corporation Commission ("ACC") play?

A: If the Plan of Reorganization is approved, the Company will still be subject to the jurisdiction of the ACC. In fact, our legal counsel has told us that the ACC must approve the Plan of Reorganization before it can be implemented. Consequently, if the Plan is approved, we will submit the Plan to the ACC for its approval. The ACC will want to assure that the rates charged for delivery of the Company's water are fair, and if the Company is able to profit from the contract with Goodyear, the ACC will likely require that the Company reduce its rates to water users. Thus, there will be no change in the manner in which the Company is regulated, and the Company may, in fact, be subject to more stringent regulation.

Q7: Why does Dr. LaBarre suggest that a member derivative suit might be appropriate?

A: Dr. LaBarre's suggestion that a member derivative suit might be appropriate is difficult to understand. What the Board is asking the Members to do is to approve the Plan of Reorganization. *If the Plan of Reorganization is approved, it will only be with the Member's consent.* Any derivative suit would apparently be aimed at preventing the Members from considering and voting upon the Plan of Reorganization and would simply deny Members their rights.

Derivative suits are difficult to bring, expensive and frequently benefit no one but the lawyers. We simply do not understand Dr. LaBarre's comments in this regard.

C

AFFIDAVIT OF DAVID SCHOFIELD

STATE OF ARIZONA)
) ss.
COUNTY OF MARICOPA)

After first being duly sworn on oath, David Schofield states the following:

1. I am David Schofield and I am the manager of Adaman Mutual Water Company, an Arizona non-profit corporation ("Adaman" or the "Company") and hereby make this statement in that capacity.

2. On April 7, 2009, I was present at the Company's Annual Meeting of Members (the "2009 Meeting") that was attended by, among other people, Dr. Lise LaBarre.

3. The matters discussed at the 2009 included the proposed First Amendment to Adaman's Agreement and Plan of Reorganization (the "Amendment") which contemplated submitting the Company's Agreement and Plan of Reorganization (the "Plan") to the Arizona Corporation Commission (the "Commission") for approval of the Company's issuance of stock pursuant to the Plan.

4. At the meeting, Dr. LaBarre commented to the Board that she intended to closely monitor the Commission's proceedings closely..

5. Dr. LaBarre subsequently contacted Adaman and indicated she intended to challenge the action taken by Adaman at the Commission.

6. Adaman subsequently published notice of its Application to the Commission and of the Amended Application to the Commission. Publication of the original application occurred on October 5, 2009.. Publication of Adaman's amended Application to the Commission occurred on April 7, 2010..

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 24th day of May, 2010.

David Schofield

SUBSCRIBED AND SWORN TO before me this 24th day of May 2010, by David Schofield.

Charla Seitz
Notary Public